



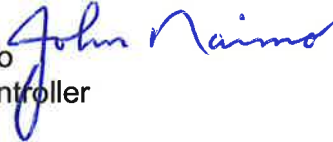
JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

September 22, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo 
Auditor-Controller

SUBJECT: **MARTIN LUTHER KING, JR. OUTPATIENT CENTER - TRUST FUNDS,
REVOLVING FUNDS, COMMITMENTS, AND ACCOUNTS PAYABLE
FOLLOW-UP REVIEW**

We have completed a follow-up review of Martin Luther King, Jr. Outpatient Center's (MLK or Facility) progress in implementing the ten recommendations from our November 2010 report on the Facility's trust funds, revolving funds, commitments, and accounts payable. MLK's response to our November 2010 report indicated that they have implemented, or were in the process of implementing all ten of the recommendations. However, during our follow-up review, we noted that MLK has only implemented two (20%) recommendations, partially implemented three (30%) recommendations, and has not implemented the remaining five (50%) recommendations. MLK's implementation status for the ten recommendations is included in Attachment I.

We discussed the results of our follow-up review with MLK management. MLK's attached response (Attachment II) indicates general agreement with our findings.

We thank MLK management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:JU

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Department of Health Services
Mitchell H. Katz, M.D., Director, Los Angeles County Health Agency
Cynthia Oliver, Administrator, MLK
Jody Nakasuji, Chief Financial Officer, Harbor-UCLA Medical Center
Tim Pescatello, Interim Chief, Audit & Investigations Division
Public Information Office
Audit Committee

**MARTIN LUTHER KING, JR. OUTPATIENT CENTER
TRUST FUNDS, REVOLVING FUNDS, COMMITMENTS,
AND ACCOUNTS PAYABLE FOLLOW-UP REVIEW**

Background and Scope

In November 2010, we completed a review of Martin Luther King, Jr. Outpatient Center's (MLK or Facility) trust funds, revolving funds, commitments, and accounts payable. The purpose of our review was to determine whether the Facility complied with County Fiscal Manual (CFM) requirements. Our report identified ten recommendations for improving fiscal processes and internal controls.

We have completed a follow-up review to determine the implementation status of the ten recommendations from our prior report. Our follow-up review included interviewing MLK management and staff, examining records, and evaluating oversight.

Recommendation Implementation Status

MLK fully implemented two (20%) recommendations, partially implemented three (30%) recommendations, and has not implemented five (50%) recommendations. The following are the ten recommendations and their implementation status.

Trust Funds

Recommendation 1

Martin Luther King, Jr. Outpatient Center's management ensure trust accounts are used as intended, and keep documentation of each trust account's purpose and authority.

Current Status: PARTIALLY IMPLEMENTED

Prior to our follow-up review, MLK closed two trust accounts (i.e., Patient Personal Deposit and Sales Tax) that the Facility determined were no longer needed. MLK currently has two trust accounts, which include the Miscellaneous and Refunds trust accounts. These trust accounts are part of the County's TK7 trust fund, which is comprised of various County trust accounts and their balances. As of May 2016, MLK's trust accounts totaled approximately \$121,000.

As a result of our original review, MLK developed a listing to document the purpose and authority for each trust account to ensure it is used as intended. However, we noted that the trust accounts' purpose/descriptions are vague and incomplete. For example, we noted that the Miscellaneous trust account is being used to hold grants and awards, but this was not included in the trust account's purpose/description. In addition, we noted that MLK's trust account listing is not current (e.g., outdated balances and reconciliation dates, included closed trust accounts, etc.). As a result of our follow-up

review, the Facility updated their listing, and indicated that they will continue to update information, as needed.

We also noted that the Facility disburses various refunds (e.g., for patient services, pharmacy, copy fees, etc.) from the Refunds trust account prior to the transfer of the refund monies into the trust account. The Auditor-Controller's (A-C) Accounting Division (Accounting) indicated that this practice is only allowed in urgent situations, and with the requirement that County departments expedite the reimbursement of the trust accounts in equal amounts to the disbursements.

However, we noted that the Refunds trust account was not reimbursed for all disbursements made in Fiscal Year (FY) 2013-14, totaling \$1,900. In addition, we noted that at FY 2013-14 year-end, the Facility had approximately \$49,800 in the Refunds trust account, which was part of \$80,200 in Unclassified Revenue that was inappropriately transferred into the Refunds trust account in FY 2011-12. The Facility has been inappropriately using the \$80,200 for all disbursements made from FY 2011-12 to FY 2013-14, totaling \$30,400, instead of reimbursing the trust account from the appropriate revenue accounts. As a result of our review, we verified that the Facility transferred back the remaining balance to Unclassified Revenue, and the Facility indicated that they will ensure refund monies are transferred into the trust account prior to making any disbursements.

Recommendation 2

Martin Luther King, Jr. Outpatient Center's management reconcile trust accounts monthly/quarterly, as required.

Current Status: NOT IMPLEMENTED

We requested eight monthly reconciliations from FY 2013-14 for MLK's two trust accounts (four from each trust account), and noted that all four Refunds trust account reconciliations have not been completed. The Facility indicated that the Refunds trust account had not been reconciled prior to FY 2014-15. As a result of our review, the Facility retroactively completed the missing reconciliations, and will ensure the trust account continues to be reconciled.

We also noted that for the Miscellaneous trust account, the reconciliation reviewer/approver inappropriately had other trust account responsibilities. The CFM requires the monthly trust account reconciliations to be reviewed/approved by the department's Fiscal Officer or supervisory staff who have no other trust account responsibilities.

In addition, we noted that for both the Miscellaneous and Refunds trust accounts, the Facility does not maintain complete detailed subsidiary records. The Facility maintained records that did not include running balances, disbursement details, etc., which they used to reconcile to the electronic Countywide Accounting and Purchasing System

(eCAPS). However, CFM Section 2.3.0 requires departments to reconcile complete detailed subsidiary records to eCAPS. Therefore, for the four Miscellaneous trust account reconciliations provided, we were unable to verify if reconciliations were completed appropriately (e.g., reconciling items were appropriately identified and resolved, transactions were correctly recorded, etc.). As a result of our review, MLK indicated that they are updating their trust account records, and will ensure they maintain complete detailed subsidiary records.

Recommendation 3

Martin Luther King, Jr. Outpatient Center's management transfer unclaimed funds to the Treasurer and Tax Collector, and periodically review the Patient Personal Deposit and Miscellaneous trust accounts to identify and transfer additional unclaimed funds to the Treasurer and Tax Collector.

Current Status: PARTIALLY IMPLEMENTED

In our original report, we noted that MLK's Patient Personal Deposit (PPD) and Miscellaneous trust accounts had \$38,000 that could potentially be transferred to the Treasurer and Tax Collector (TTC) under Government Code Sections 50050 through 50057. As previously mentioned, the PPD trust account was closed prior to our follow-up review. We verified that the funds were transferred to TTC prior to the close of the trust account. However, we reviewed the Miscellaneous trust account, and identified \$34,700 in employee key security deposits (i.e., to issue keys for lockers, entrance doors, desk locks, and elevator access) that could potentially be transferred to TTC. Since the Facility does not maintain complete detailed subsidiary records, we are unable to determine if \$25,700 in potential unclaimed employee key security deposits noted in our original report is part of the \$34,700. The Facility indicated they will review the trust account to identify unclaimed employee key security deposits, and subsequently transfer them to TTC, if needed.

Commitments and Accounts Payable

Recommendation 4

Martin Luther King, Jr. Outpatient Center's management reinstruct fiscal staff on establishing and cancelling commitments and accounts payable and monitor for compliance.

Current Status: NOT IMPLEMENTED

As a result of our original review, the Facility reinstructed fiscal staff on establishing and cancelling commitments and accounts payable. For this follow-up review, we reviewed 20 commitments and commitment payments and noted that six (30%) commitments, totaling \$1.4 million, should have been established as accounts payable since they were for goods and services received in the prior fiscal year. We also identified an entire

fund (i.e., MN5) with commitments that were not monitored by MLK, and continued to be carried forward since FY 2011-12, totaling \$453,000. Subsequent to our review, the Facility cancelled the commitments.

In addition, we noted that the Facility does not initiate cancellation documents when accounts payable are no longer needed. At FY 2013-14 year-end, \$2.5 million (42%) of the total \$5.9 million of accounts payable that were established at FY 2012-13 year-end had to be cancelled by A-C Accounting, instead of being timely cancelled by the Facility once they determined the accounts payable were no longer needed. MLK indicated that due to the time it takes to cancel accounts payable, it has been their practice to have A-C Accounting automatically cancel accounts payable at fiscal year-end. However, the Facility needs to cancel accounts payable as soon as it is determined they are no longer needed, because the timely cancellation of accounts payable releases funds that can be used for other purposes.

Recommendation 5

Martin Luther King, Jr. Outpatient Center's management ensure that staff verify the accuracy of packing slips/receiving reports or document that they received services for each purchase, and ensure that they match invoices, requisitions/purchase orders and packing slips/receiving reports before issuing payments.

Current Status: NOT IMPLEMENTED

We reviewed ten commitment payments, and could not verify if five (50%) payments, totaling \$861,900, were for goods and services received in the current fiscal year, since the packing slip/receiving documents were not retained, or the packing slip/receiving documents or invoices were not signed and/or dated to denote when goods and/or services were received. We also noted that for nine (90%) commitment payments, the Facility did not appropriately retain requisition documents, and for all ten payments, the Facility did not obtain the appropriate number of payment approvals for the hard-copy payment vouchers, as required by the Facility's Internal Control Plan.

Revolving Funds

Recommendation 6

Martin Luther King, Jr. Outpatient Center's management close the cash aid fund that is no longer needed and reevaluate the revolving cash trust fund assignment.

Current Status: PARTIALLY IMPLEMENTED

In our original report, we noted that MLK had a petty cash fund, a cash aid fund, and a revolving cash trust fund (RCTF), cumulatively totaling \$15,800 that had minimal activity. Our follow-up review noted that MLK appropriately closed the petty cash fund

and the RCTF, but continued to maintain a \$1,500 cash aid fund assignment (\$1,250 and \$250 sub-assignments). We noted that the \$1,250 sub-assignment had no activity, and the \$250 sub-assignment had minimal activity. As a result of our review, the Facility appropriately submitted a request to the A-C to close the \$1,250 sub-assignment, and reduce the \$250 sub-assignment amount to \$150, as required by the CFM.

Recommendation 7

Martin Luther King, Jr. Outpatient Center's management reconcile bank accounts monthly as required, ensure that reconciliations are appropriately reviewed and approved, and supporting documentation is maintained.

Current Status: IMPLEMENTED

As previously mentioned, the Facility closed the petty cash fund, and consequently the bank account that was used to hold a portion of the assignment amount. MLK currently has no other revolving funds with bank accounts.

Recommendation 8

Martin Luther King, Jr. Outpatient Center's management ensure revolving fund amounts are accurately reported in the County's official records.

Current Status: NOT IMPLEMENTED

We reviewed MLK's two revolving funds, and noted that MLK maintains a \$350 change fund cash assignment, while the County's official records indicate a \$200 assignment amount. As a result of our review, MLK deposited the \$150 as a cash overage into the Facility's overage revenue accounts, and appropriately submitted a request to the A-C for a change fund increase, as required by the CFM. In addition, we noted that five (83%) of the six revolving fund sub-assignments did not receive surprise cash counts, which could have potentially identified the \$150 discrepancy with the change fund.

Recommendation 9

Martin Luther King, Jr. Outpatient Center's management ensure that a Statement of Responsibility form is completed and on file for each revolving fund.

Current Status: IMPLEMENTED

We verified that the Facility is maintaining the Statement of Responsibility (SOR) forms on file for each revolving fund. However, in reviewing the SOR's, we noted that for four (67%) of the six revolving fund sub-assignments, the fund custodians were also the fund custodians for other revolving fund sub-assignments. The CFM requires a separate custodian for each revolving fund assignment/sub-assignment.

Internal Control Certification Program**Recommendation 10**

Martin Luther King, Jr. Outpatient Center's management conduct Internal Control Certification Program reviews in accordance with the Internal Control Certification Program procedures and ensure that the information is accurate before submitting the Internal Control Certification Program to the Auditor-Controller.

Current Status: NOT IMPLEMENTED

MLK's FY 2014-15 Internal Control Certification Program (ICCP) did not identify all control weaknesses noted above. Many of the control weaknesses should have been identified when MLK completed their ICCP.



September 8, 2016

**Los Angeles County
Board of Supervisors**

Hilda L. Solis
First District

Mark Ridley-Thomas
Second District

Sheila Kuehl
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

TO: John Naimo
Auditor-Controller

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S REVIEW OF
TRUST FUNDS, REVOLVING FUNDS, COMMITMENTS
AND ACCOUNTS PAYABLE FOLLOW-UP REVIEW –
MARTIN LUTHER KING, JR. OUTPATIENT CENTER**

Mitchell H. Katz, M.D.
Director

Hal F. Yee, Jr., M.D., Ph.D.
Chief Medical Officer

Christina R. Ghaly, M.D.
Deputy Director, Strategy and Operations

Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's report of its follow-up review of Trust Accounts, Revolving Funds, Commitments and Accounts Payable at the Martin Luther King, Jr. Outpatient Center. We concur with and have taken or initiated corrective actions to address the recommendations contained in the report.

313 N. Figueroa Street, Suite 912
Los Angeles, CA 90012

Tel: (213) 240-8101
Fax: (213) 481-0503

www.dhs.lacounty.gov

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health care to Los Angeles County
residents through direct services at
DHS facilities and through
collaboration with community and
university partners.*

If you have any questions or require additional information, please let me know or your staff may contact Loretta Range at (213) 240-7755.

MHK:GP:TP:lr

Attachment

c: Cynthia Oliver
Gregory C. Polk
Allan Wecker
Jody Nakasuji
Azar Kattan
Tim Pescatello
Francisco RCA
Rosita Banuelos
Keir Eusebio



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**COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES
RESPONSE TO AUDITOR-CONTROLLER TRUST FUNDS, REVOLVING FUNDS,
COMMITMENTS AND ACCOUNTS PAYABLE
FOLLOW-UP REVIEW
MARTIN LUTHER KING, JR. OUTPATIENT CENTER (MLK OC)**

Auditor-Controller Recommendation #1:

Martin Luther King, Jr. Outpatient Center's management ensure trust accounts are used as intended, and keep documentation of each trust account's purpose and authority.

DHS Response:

We concur. MLK OC's management updated the trust account listing and will continue to update information, as needed, to ensure trust accounts are used as intended, and keep documentation of each trust account's purpose and authority. Also, MLK OC's management will submit a request to the Auditor-Controller's Accounting Division by September 15, 2016 to establish a new trust account for Grants and Awards.

Auditor-Controller Recommendation #2:

Martin Luther King, Jr. Outpatient Center's management reconcile trust accounts monthly/quarterly, as required.

DHS Response:

We concur. MLK OC's management updated the subsidiary ledgers for the two MLK Jr. Outpatient Center trust accounts and completed the reconciliations retroactive to July 2014.

Auditor-Controller Recommendation #3:

Martin Luther King, Jr. Outpatient Center's management transfer unclaimed funds to the Treasurer and Tax Collector, and periodically review the Patient Personal Deposit and Miscellaneous trust accounts to identify and transfer additional unclaimed funds to the Treasurer and Tax Collector.

DHS Response:

We concur. The Miscellaneous trust account will be periodically reviewed to identify and transfer additional unclaimed funds to the Treasurer and Tax Collector. The Patient Personal Deposit trust account was closed in April 2013 as it was no longer needed.

Follow-up Review Trust Funds, Revolving Funds, Commitments & Accounts Payable –
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Auditor-Controller Recommendation #4:

Martin Luther King, Jr. Outpatient Center's management reinstruct fiscal staff on establishing and cancelling commitments and accounts payable and monitor for compliance.

DHS Response:

We concur. On April 25, 2016 Fiscal and Supply Chain Operations (SCO) staff met and were reinstructed on establishing and cancelling commitments and accounts payable and monitoring for compliance. Effective with FY 2016-17, Finance will provide quarterly commitments and accounts payable listings to SCO for compliance monitoring.

Auditor-Controller Recommendation #5:

Martin Luther King, Jr. Outpatient Center's management ensure that staff verify the accuracy of packing slips/receiving reports or document that they received services for each purchase, and ensure that they match invoices, requisitions/purchase orders and packing slips/receiving reports before issuing payments.

DHS Response:

We concur. MLK OC's management will ensure staff verifies the accuracy of packing slips/receiving reports or document that they received services for each purchase and enter this into the Hospital Materials Management System (HMMS) and agrees to maintain documentation in file. SCO uses the HMMS automated three way matching process to validate requisitions/purchase orders, packing slips, and invoices before paying vendors based on invoiced amounts.

Auditor-Controller Recommendation #6:

Martin Luther King, Jr. Outpatient Center's management close the cash aid fund that is no longer needed and reevaluate the revolving cash trust fund assignment.

DHS Response:

We concur. In June 2016, the \$1,250 MLK Jr. Outpatient Center cash aid fund was closed and the Hubert H. Humphrey CHC cash aid fund was reduced from \$250 to \$150.

Follow-up Review Trust Funds, Revolving Funds, Commitments & Accounts Payable –
MLK, Jr. Outpatient Center
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Auditor-Controller Recommendation #7:

Martin Luther King, Jr. Outpatient Center's management reconcile bank accounts monthly as required, ensure that reconciliations are appropriately reviewed and approved, and supporting documentation is maintained.

DHS Response:

We concur. MLK, Jr. OPC implemented this recommendation.

Auditor-Controller Recommendation #8:

Martin Luther King, Jr. Outpatient Center's management ensure revolving fund amounts are accurately reported in the County's official records.

DHS Response:

We concur. Effective June 2016, Hubert H. Humphrey Comprehensive Health Center (HHH) and Dollarhide Health Center's (DHC) change funds are accurately reported in the eCAPS Trial Balance Report.

Auditor-Controller Recommendation #9:

Martin Luther King, Jr. Outpatient Center's management ensure that a Statement of Responsibility form is completed and on file for each revolving fund.

DHS Response:

We concur. MLK, Jr. OPC implemented this recommendation on June 9, 2015.

Auditor-Controller Recommendation #10:

Martin Luther King, Jr. Outpatient Center's management conduct Internal Control Certification Program reviews in accordance with the Internal Control Certification Program procedures and ensure that the information is accurate before submitting the Internal Control Certification Program to the Auditor-Controller.

Follow-up Review Trust Funds, Revolving Funds, Commitments & Accounts Payable –
MLK, Jr. Outpatient Center
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DHS Response:

We concur. MLK OC management will ensure that all responsible managers are consistently made aware of the importance of accurately identifying assessable unit weaknesses, in accordance with the ICCP procedures, on ICCP responses. A memo will be issued to the Executive Staff and responsible managers in conjunction with the FY 2016-17 ICCP, and each review thereafter, stressing the importance of accurately identifying internal control weaknesses and implementing improvement plans timely.